

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7690

BILL NUMBER: HB 1540

NOTE PREPARED: Jan 20, 2007

BILL AMENDED:

SUBJECT: Tippecanoe County Food and Beverage Tax.

FIRST AUTHOR: Rep. Brown T

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: ☒ **GENERAL**
☐ **DEDICATED**
☐ **FEDERAL**

IMPACT: State & Local

LOCAL IMPACT	CY 2007	CY 2008	CY 2009
Local Revenues	690,000	2,878,000	3,014,000
Local Expenditures			
Net Increase (Decrease)	690,000	2,878,000	3,014,000

Summary of Legislation: The bill authorizes Tippecanoe County to impose a food and beverage tax. The bill provides that revenues derived from the tax must be used to promote cultural activities within the county and to promote the development of the Wabash River corridor within the county.

Effective Date: July 1, 2007.

Explanation of State Expenditures: Current cost for the Department of State Revenue to administrate, audit, and collect local taxes is approximately \$0.54 per \$100 of revenue. The Department would be able to process the proposed tax within the existing level of resources available to the Department.

Explanation of State Revenues:

Explanation of Local Expenditures: Under the bill, the fiscal body of Tippecanoe County would have the option of adopting an ordinance to impose the 1% food and beverage tax. The fiscal body would be required to send a certified copy of the ordinance to the Department of State Revenue.

Revenue generated by the tax would be able to be used as a means to fix the county's budget. The bill would require that revenue from the tax be used for promotion of cultural activities and Wabash River corridor development within the county. Revenue would be deposited into the County Food and Beverage Tax Receipts Fund (FBTRF).

Explanation of Local Revenues: *Summary:* The Tippecanoe County Food and Beverage Tax is estimated to generate \$690,000 in CY 2007, \$2.9 M in CY 2008, and \$3 M in CY 2009. The Food and Beverage Tax is an excise tax on food and beverages prepared and served for sale in the local unit imposing the tax. The tax rate would be 1% and would be collected and remitted in the same manner as the state Sales Tax.

Background Information on Methodology: According to the most recent U.S. Census data, *total* food and beverage sales in Tippecanoe County for CY 1992 totaled \$127.7 M. The Census Bureau did not publish an estimate of *total* Tippecanoe food and beverage sales in both 1997 and 2002 due to confidentiality concerns for one or more specialty food establishment(s) in the county. Therefore, special food service (NAICS code 7223) is not included in the 2002 base of \$199 M. In 2002, the number of special food service establishments represented 5.7% of all food and beverage establishments in the county (16 out of 277).

In order to account for the special food establishments, the 2002 base of \$199 M was increased by 5.7%. The increase was based on the assumption that if special foods accounted for 5.7% of the food and beverage establishments in the county, then special foods would account for 5.7% of total sales. Therefore, the 2002 base is adjusted upward to \$211.2 M.

A 1% rate applied to the 2002 base of \$211.2 M could have generated \$2.1 M in CY 2002. However, the 1% amount must be adjusted to reflect sales of prepared foods (such as those sold in supermarkets) which would be subject to the proposed tax but not included in the U.S. Census data. In order to account for these prepared foods, an additional upward adjustment of 10% was applied to the CY 2002 base of \$2.1 M. The adjustment increases the CY 2002 baseline to \$2.3 M.

Projections for CY 2003 through CY 2006 use the growth rates of state Sales Tax collections in FY 2003 through FY 2006. CY 2007 and future years are projected using the state Sales Tax estimated growth rates from the December 14, 2006, state revenue forecast: 2.7% in FY 2007, 4.3% in FY 2008, and 4.7% in FY 2009. Based on the growth rates above, the CY 2007 base is projected at \$2.76 M.

The effective date of the bill is July 1, 2007. As a result, Tippecanoe County could begin receiving revenue from food and beverage sales by October 2007. A three-month lag is applied from the effective date of the bill to account for the time required for the county to pass an ordinance and then set up the mechanisms necessary to receive revenue. The expected impact for CY 2007 would be one-quarter of the annual projection, or \$690,000 (1/4 of the CY 2007 complete-year estimate of \$2.76 M). Complete-year collection would begin in CY 2008.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Tippecanoe County

Information Sources: Darrel Anderson, James Chandler, Department of State Revenue; US Bureau of Census, 2002 Economic Census; U.S. Bureau of Economic Analysis; *State Revenue Forecast December 14, 2006*.

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